

## Message Text

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43

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DRC-01 /143 W

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R 261449Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5294

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS BONN 15243

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: HERSTATT

REF: BONN 15137

1. SUMMARY: THE HERSTATT LIQUIDATION PROPOSAL IS  
BEING GIVEN A GOOD CHANCE OF SUCCESS BY THE GERMAN  
FINANCIAL PRESS. ATTACHMENTS OF HERSTATT MONEY IN  
NEW YORK ARE REPORTED TO HAVE A GOOD CHANCE OF ASSURING  
100 PERCENT RECOVERY OF LOSSES TO SUCH BANKS AS  
MORGAN GUARANTY OR FIRST NATIONAL OF SEATTLE WHILE  
FIRST NATIONAL CITY AND HILL SAMUELS ARE LIKELY TO  
REALIZE ONLY THE PERCENTAGE SETTLEMENT COMING OUT OF  
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THE GERMAN LIQUIDATION. END SUMMARY.

2. THE VOGELSANG LIQUIDATION PROPOSAL (SEE REFTTEL) IS NOW UNDER DISCUSSION WITH VARIOUS CREDITOR GROUPS. A NUMBER OF CREDITORS HAVE PUBLICLY EXPRESSED DISSATISFACTION WITH THE RELATIVELY LOW PERCENTAGE SETTLEMENT PROPOSED FOR THEM, WITH THE MORE FAVORED TREATMENT PROPOSED FOR OTHERS (SUCH AS FOREIGN BANKS), WITH THE PROPOSED PARTICIPATION IN THE LIQUIDATION PROCEEDS OF THE EMERGENCY (FIRE BRIGADE) FUND OF THE GERMAN BANKS AND THE GERLING HARDSHIP FUND AND WITH THE ABSENCE OF ANY ADDITIONAL PROVISIONS FOR HARDSHIP CASES. THERE ALSO HAVE BEEN CALLS FOR ADDITIONAL CONTRIBUTIONS TO THE SETTLEMENT BY GERMAN BANKS AND THE FEDERAL GOVERNMENT. PRESS REPORTS ARE, HOWEVER, GENERALLY OPTIMISTIC THAT AGREEMENT ON A VOLUNTARY LIQUIDATION WILL BE REACHED AND BANKRUPTCY PROCEEDINGS THUS WILL BE AVOIDED. THE MAIN REASON FOR THIS OPTIMISM SEEMS TO BE THE FEELING THAT THE CALCULATION OF HERSTATT ASSETS BY VOGELSANG IS A VERY CONSERVATIVE ONE. APPARENTLY IT DOES NOT INCLUDE DM 80 MILLION OF HERSTATT MONEY ALREADY BLOCKED IN SWITZERLAND, POSSIBLE PROFITS FROM EXCHANGE FORWARD CONTRACTS ACCRUING AFTER JUNE 26 AND ALSO UNDERSTATES SOME OTHER ASSETS. VOGELSANG'S CALCULATION OF POSSIBLE CLAIMS AGAINST HERSTATT ON THE OTHER HAND IS REPORTED TO BE A VERY LIBERAL ONE. AS A RESULT, THE PRESS SPECULATES, IT MIGHT BE POSSIBLE TO SATISFY SOME OF THE OBJECTING CREDITORS BY INCREASING THE PERCENTAGE SETTLEMENT PROPOSED FOR THEM WITHOUT REDUCING THAT OF OTHERS OR BY AT LEAST GIVING THE OBJECTING CREDITORS SUFFICIENT ASSURANCE OF THE LIKELIHOOD THAT THEY WILL RECEIVE A SUPPLEMENTARY SETTLEMENT (PARA 5 OF REFTTEL) TO INDUCE THEM TO WITHDRAW THEIR OBJECTIONS.

3. THE HANDELSBLATT TODAY CARRIES AN ARTICLE ON THE STATUS OF LEGAL ACTIONS REGARDING HERSTATT FUNDS IN NEW YORK AND CONCLUDES THAT THOSE BANKS HIGH ON THE LIST OF THE SIXTEEN ATTACHMENTS AGAINST THESE FUNDS (SUCH AS MORGAN GUARANTY AND FIRST NATIONAL OF SEATTLE) HAVE A VERY GOOD CHANCE OF FULLY RECOVERING THEIR LOSS

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FROM THE HERSTATT CLOSURE WHILE THOSE WHO HAVE INSTEAD FILED FOR A HERSTATT BANKRUPTCY IN NEW YORK (SUCH AS FIRST NATIONAL CITY AND HILL SAMUEL) ARE NOT LIKELY TO SUCCEED (AND THUS PRESUMABLY WILL GET A PERCENTAGE SETTLEMENT FROM THE COLOGNE HERSTATT LIQUIDATION). ACCORDING TO THE HANDELSBLATT THE BANKS WHICH HAVE FILED FOR ATTACHMENTS IN NEW YORK STRESS THAT THEY ARE ONLY EXERCISING

THEIR LEGAL RIGHTS AND THAT, AFTER ALL, IT WAS THE  
GERMAN SIDE WHICH AGAIN AND AGAIN HAS INSISTED ON  
LOOKING AT THE HERSTATT CLOSURE FROM A PURELY LEGAL  
POINT OF VIEW INSTEAD OF ATTEMPTING TO FIND THROUGH  
THE BUNDESBANK OR THE FEDERAL GOVERNMENT AN INTER-  
NATIONALLY LESS DISRUPTIVE SOLUTION.  
HILLENBRAND

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